

**MINUTES OF A MEETING  
KENTUCKY WORKERS' COMPENSATION FUNDING COMMISSION  
BOARD OF DIRECTORS**

**March 22, 2017**

**Opening of Meeting:**

1. A regular meeting of the Board of Directors of the Kentucky Workers' Compensation Funding Commission was held on March 22, 2017, in the Commission's conference room, located at 42 Mill Creek Park, Frankfort, Kentucky. Madam Chair Judy Long called the meeting to order.
2. Angela Calloway announced the meeting will be recorded in accordance with Kentucky Revised Statute 61.835.
3. Madam Chair Long verified press notice and asked for roll call.

**Directors Present:**

4. Judy Long, Self-Insured Employers Representative  
Brooken Smith, Designee for Secretary Derrick Ramsey, Labor Cabinet  
Duran Hall, Commercially Insured Employers  
Edwin King, Designee for Secretary William Landrum, Finance & Administration Cabinet  
Michelle Landers, Insurance Representative, KEMI  
Caroline Baesler, Designee for Secretary Terry R. Gill, Jr., Cabinet for Economic Development

**Others Present:**

5. Reuben Jones, Executive Director, KWCFC  
Renee Haddix, Director of Audit and Collections, KWCFC  
Louie Hord, Director of Fiscal Operations, KWCFC  
Angela Calloway, Fiscal Services Officer, KWCFC  
Gordon Stammel, Computer Network Manager, KWCFC  
Michael Swansburg, General Counsel, Labor Cabinet  
Mike Nemes, Deputy Secretary, Labor Cabinet  
Marian Johnson, Acting Division Director, Division of Workers' Compensation Funds  
John Colston, Resource Management Analyst, Department of Workers' Claims  
Ryan Barrow, Executive Director, Office of Financial Management  
Kim Bechtel, Financial Portfolio Administrator, Office of Financial Management

Reid Glass, Asst. General Counsel, Cabinet for Economic Development  
Andrew Manno, Legislative Research Commission  
Ed O'Daniel, Attorney  
Dustin Miller, AIG

6. Madam Chair Long recognized Women's History Month and Reuben Jones recognized Renee Haddix for her leadership and work in the Commission. Mike Swansburg also recognized Madam Chair Long. Madam Chair Long thanked Bill Finn for his service to the Board and announced the appointment of Ted Carl Luckett.

**Approval of Minutes:**

7. Brooken Smith noted the Investment meeting held January 9<sup>th</sup> was attended by Secretary Derrick Ramsey, Duran Hall and Reuben Jones. Judy Long was not present.
8. Duran Hall made a motion to approve the January 25, 2017 Minutes. Caroline Baesler seconded the motion. Motion carried.

**Financial Report:** Louie Hord (report on file for referral)

9. Louie Hord reviewed the year to date budget versus actual expenses for KWCFC, the year to date internal financial statements, and fiscal year to date interagency transfers made by KWCFC for the period ending February 28, 2017.
10. Brooken Smith made the motion to accept the Financial Reports as presented. Caroline Baesler seconded the motion. Motion carried.

**Investment Report:** Kim Bechtel (report on file for referral)

11. Kim Bechtel presented the Investment Positions/Strategies detailing the different type of investments showing the total value as approximately \$531M. She provided the comparison of actuarial projections versus actual results and the Special Fund projected cash balance providing the current position and the previous position.
12. Reuben Jones asked about the aforementioned cash flow decrease in 2025 and what the Commission could do to change the negative projection. Ms. Bechtel stated she would need to review the actuarial cash flow projections in more detail, having just received it on Friday. Mr. Jones added this is an opportunity for the Board to provide input regarding the assumptions used by the actuary with the hope for more realistic results.

13. Ms. Bechtel reported on Securities Lending Results pointing out the utilization rate and income for February. She also reported how the Coal Workers' Pneumoconiosis Fund compared to the benchmark returns.
14. Edwin King asked if the "dip in cash" between March 2024 and March 2026 results from the maturities not matching up with the cash flow. Ms. Bechtel explained she reviewed the actuarial report in 2022, 2024 and 2025 and determined there were no securities maturing to cover the outflows of payment. She will review the report in more detail to see if there is an opportunity to match cash flows with funds available to cover payments.
15. Mr. King added if the Board decides to go with an outside investment advisor they will need someone globally looking at matching cash flows and maturity dates to ensure the Commission has the cash it needs to operate effectively.
16. Mr. King stated that OFM highly recommends not selling investments the Commission is holding at this time, because interest rates are going up and the prices of securities are going down.
17. Ryan Barrow reported the actuarial study has not been updated since June 30, 2016 and cash flow issues in 2022, 2024, and 2025 mentioned by Ms. Bechtel may not exist.
18. Mr. Barrow has information on Securities that can be sold without a market loss. The decision is where to invest the money after the sale. Once consultants are hired, an equity strategy can be established. He reported OFM would not recommend selling treasuries until better information is available and a new investment strategy incorporated.
19. Duran Hall made the motion to accept the investment report. Caroline Baesler seconded the motion. Motion carried.

**Legal Contract Funding Increase:**

20. Reuben Jones explained the Commission continues to pursue those who owe outstanding payments to the Commonwealth. Additional funding is needed to continue the effort.
21. Brooken Smith interjected in order to assess a funding decision that might touch on matters involving pending litigation and asked for the issue to be discussed in Executive Session.

**Audit & Collections Update:** Renee Haddix (report on file for referral)

22. Renee Haddix presented an update on the number of audits ongoing and completed.

23. Duran Hall made the motion to accept the Audit and Collections report as presented. Caroline Baesler seconded the motion. Motion carried.

**Executive Session:**

24. Madam Chair Long asked for a motion to go into Executive Session under KRS 61.810 (1) (c), (f) and (j) to discuss litigation, personnel, and penalty waivers.
25. Duran Hall made the motion to go into Executive Session. Caroline Baesler seconded the motion. Motion carried.

**Open Session:**

26. Duran Hall made the motion to return to open session. Caroline Baesler seconded the motion. Motion carried.

**Penalty Waivers:**

27. Reuben Jones stated there was an error made in a motion from the January meeting and a motion is needed to correct the January motion.
28. Brooken Smith made a motion to rescind the January 25, 2017 motion regarding penalty waiver for Marathon Petroleum in the amount of \$233.51 of penalty for the 2<sup>nd</sup> quarter 2016 Quarterly Premium Report late filing. Duran Hall seconded the motion. Motion carried.
29. Brooken Smith made a motion to waive penalty in the amount of \$233.51 on a one-time only basis for the late filing of International Paper Company's 2<sup>nd</sup> quarter 2016 Quarterly Premium Report. Michelle Landers seconded the motion. Motion carried.
30. Brooken Smith made a motion to waive penalty in the amount of \$1,249.76 on a one-time only basis for the late filing of Armstrong Coal's 4<sup>th</sup> quarter 2016 Quarterly Premium Report and on the condition the remaining penalty of \$3,749.31 be paid within the next ten business days. Caroline Baesler seconded the motion. Motion carried.
31. Brooken Smith made a motion to waive penalty in the amount of \$954.75 on a one-time only basis for the late filing of Thoroughfare Mining LLC's 4<sup>th</sup> quarter 2016 Quarterly Premium Report. Michelle Landers seconded the motion. Motion carried.
32. Brooken Smith made a motion to waive penalty in the amount of \$211.41 on a one-time only basis for the late filing of Ember Energy LLC's 4<sup>th</sup> quarter 2016 Quarterly Premium Report. Michelle Landers seconded the motion. Motion carried.

## **Other Business:**

### **Investment Comparisons Report**

33. Louie Hord reported on investment comparisons between various retirement, endowment, and KWCFC funds. The research shows each fund invested in equities, as well as, fixed securities. These funds have approximately 10-16% in fixed investments and invested 84-90% in equities. The target rate of return was approximately 7.5% across the board. Mr. Hord reported each fund used investment committees, consultants, and fund managers.

### **Investment Sub-Committee**

34. Madam Chair Long made a motion to form an investment committee consisting of Secretary Derrick Ramsey, Duran Hall, Reuben Jones and herself. A representative from OFM may be asked to participate as needed. Caroline Baesler seconded the motion. Motion carried.

### **Capital Funding Project**

35. John Colston presented an overview of the new Workers' Compensation Funds Electronic Payment System to replace the current Claims Payment Management System (CPMS). No board action required at this time.

### **Legislation Update**

36. Brooken Smith reported on legislative actions directly related to the Labor Cabinet. HB 377 relates to the Commission having the authorization to consult with outside experts providing investment management advice for the various funds. Mr. Smith thanked Edwin King and the Finance Cabinet for helping draft HB 377, which would ultimately give the Funding Commission clear authority to contract for outside investment management and consultation services. Mr. Smith reported it has gone through the House and is waiting in the Senate.

## **Adjournment**

37. Michelle Landers made a motion to adjourn. Edwin King seconded the motion. Motion carried.

  
Chairman of the Board